

DEG-HORIZONS

OUR BUSINESS IS DEVELOPING.

2/2009



ASIA

is not only a driver of the world economy, but also the region where most of the world's poorest people live. The global economic crisis is hitting some Asian countries hard. But there is also good news: cf. page 2.

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EDITORIAL

So will it be an L, a V or an extended U-shaped recession? Even the experts are unsure how the financial and economic crisis, which has been occupying us for at least four quarters, will evolve. By presenting figurative pictures, they can at least help to describe possible outcomes. After all, the recession appears to be gradually slowing, if the most recent surveys and studies are accurate.

The leading industrial nations have directly pumped approx. EUR 2 trillion into the financial sector and provided a further EUR 3 trillion in guarantees. Hopefully, the credit crunch will not prove a long-term problem for enterprises. What DEG is currently doing to enable firms in developing countries to make investments is one of the themes in this issue of "DEG-Horizons".

Hoping you find this edition informative,
the DEG Editorial Team

IN BRIEF

There is no sign of a summer slump: in July alone, DEG received enquiries from 30 countries via its website www.deginvest.de. There were enterprises from Argentina, India and Kenya, but also Bangladesh, Cuba and Uganda – an indication of how much the "World Wide Web" has changed communications within a relatively short period of time. Many people even talk of a technological revolution.

Certainly, improved access to modern telecommunications offers major advantages to broad sections of the population, which are now able to access information and exchange ideas faster and more comprehensively. Virtually every developing country now has mobile telephony and internet shops. DEG has promoted the development of this infrastructure for many years, especially in Africa und Asia. Its current **telecommunications portfolio** totals more **than EUR 220 million**.

FOCUS

STILL A FOCUS OF INTEREST: ASIA



Asia is multi-faceted, with everything from high tech to subsistence economy.

For more information go to: www.deginvest.de/EN_Home/Regions

"Crisis? What crisis?" read a headline in the German issue of the Financial Times in July. The subject was Indonesia, one of the countries performing comparatively well despite the global economic crisis. Its 4.4 percent growth in the first quarter of 2009 was not too far removed from the previous year's rate. Two-thirds of Indonesia's gross domestic product is based on high domestic consumption in a market of 240 million inhabitants: an advantage at times when exports are generally falling off. But Indonesia's progress would hardly have been possible without the reform processes introduced after the Asian financial crisis in the late 1990s. The political situation has also stabilised since then, as was most recently demonstrated by the parliamentary and presidential elections. Experts believe that many Indonesians no longer vote along "traditional" lines, choosing representatives of their own social community, but make a pragmatic decision based on manifestos and statements. Even the bomb attacks in Jakarta on 17 July will not have a serious adverse effect on these positive developments, says Hans-Jürgen Hertel, an expert on Indonesia and DEG's representative "on the ground".

According to the recent "World Economic Outlook" Asia will be first to recover from the crisis, which is likely to remain a concern in other regions for some time. The financial sector was for the most part less affected in Asia, and it is to be hoped that the "real economy" will also negotiate the trough in the not too distant future, thanks to government economic stimulus packages, some of them very substantial. However, reduced earnings from exports to Western countries will be less easy to offset. At the moment anyway, Asia is expected to achieve 5.5 percent GNP growth in 2009, with 7 percent forecast for the following year. That is mainly thanks to China and India, but other countries such as Indonesia are also playing their part.

In the first half of 2009, DEG approved approx. EUR 60 million in finance for investment in Indonesia's financial sector and manufacturing industry. After a somewhat hesitant start, business in China and India has again picked up; funds are mainly being provided in the form of long-term loans to industrial enterprises. Further approvals in the infrastructure sector and for climate protection investments are expected during the current year; the projects involved include small-scale hydroelectric plants.

Recently, DEG made a loan of more than USD 25 million available to a mobile telephony provider in the Philippines. This is part of a long-term tranche to which FMO of the Netherlands is also contributing USD 25 million. A further loan is being provided by the local Citibank branch. All this allows a large-scale investment programme to be financed, designed to boost capacity and improve reception in remote areas. With its involvement, DEG is maintaining its long-standing commitment to modernise telecommunications, especially in Africa and Asia, and to boost competition.

One reason why DEG is able to follow up on the successes of recent years in Asia is because of its local presence: Like its offices on other continents, DEG's representative offices in Bangkok, Beijing, Jakarta and New Delhi allow it to listen to the market – especially helpful in difficult times. Clients can benefit from the experience of an institution operating in developing countries for 47 years.

FINANCING

Financing SMEs: core business of DEG

Small and medium-sized enterprises drive economic performance and are critically important for innovation and employment – in Germany as in many other countries. In developing economies, they generate a significant share of GDP and often provide jobs for more than half the working population. But for many of these firms, investing is not easy; setting up the necessary long-term finance is somewhere

between difficult and impossible. Some entrepreneurs make do by taking out short-term loans or obtaining funds from money-lenders on unfavourable terms. Since it was founded, DEG has been promoting medium-sized enterprises, enabling them to gain access to investment capital with matching maturities. DEG not only provides finance, but also advice on investment planning and implementation. The offer is aimed at SMEs in developing and emerging countries as well as German firms that are, e.g. setting up a local subsidiary. On the one hand, projects are promoted directly by DEG providing long-term funds on market-oriented terms to its medium-sized clients. For instance, the Vietnamese subsidiary of a German enterprise recently received a DEG loan. This will allow it to upgrade a factory that processes high-quality leather and supplies prestigious shoe and car manufacturers. DEG had already been involved in a PPP project with the group when it set up an environmentally friendly tannery in China. The project was done in cooperation with a local leather industry association and environmental authorities.

A second route involves the financial sector. DEG provides banks in partner countries with loans and credit lines for their SME clients, or, e.g. acquires an interest in insurance or leasing companies with SMEs as their target group. DEG's involvement also has the effect of giving a signal to the market, and that allows additional private sector capital for medium-sized businesses to be mobilised. There are plans to expand this work for SMEs further over the coming years. There are plans to expand this work for SMEs further: DEG plans to provide finance with a volume of approx. EUR 1 billion in the coming three years via a "growth initiative".

PARTNERS AND PROJECTS

Creating measurable effects

As a provider of development finance, DEG invests exclusively in projects that make sense developmentally and are economically viable. There are two aspects to keep in mind: DEG must fulfil its role within the framework of German development co-

operation, but also generate a sufficient return flow of funds to be able to finance new projects. Whether an investment is economically sustainable can be assessed based on business plans and key economic figures. But how do you judge development quality?

DEG has a tool that measures precisely that: the Corporate Policy Project Rating – GRP for short. Using an index point system, each project is assessed in four categories, or benchmarks. Long-term profitability determines the project's financial sustainability. The second benchmark is used to establish the developmental effects, both qualitative and quantitative. These include government revenues, net currency effects and jobs, but also technology transfer, education and training measures or employees' benefits. DEG's special role records the degree to which the institution is fulfilling its purpose as a provider of development financial and consultancy services. That means, whether it is financing projects that would not have received capital from any other source, whether it has mobilised other funds or is providing additional consultancy services. Finally, DEG assesses the extent to which a project achieves the goal of an adequate return on equity – which is necessary if DEG's own growth is to be sustainable.

DEG uses GPR at several stages. New projects are assessed on how they meet DEG's business requirements. In addition, DEG evaluates its existing portfolio every two years. The "ex-post" analysis shows which effects were achieved, allows country and industry comparisons and helps draw conclusions with a view to future commitments. The most recent analysis in April 2009 showed that the enterprises co-financed by DEG are contributing EUR 560 million to government revenues and EUR 6.2 billion in net foreign exchange annually. They also provide employment for approx. 2 million people, both directly and indirectly. It is also gratifying that 15 international development finance providers are now using GPR, so the system has set standards.

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Small and medium-sized businesses: the backbone of the economy in many countries.

NEWS

How to do it: environmental and social management

Environmental and social issues are important in the financial sector as elsewhere. They can influence the economic and reputational risks of financial institutions as well as their market position and refinancing opportunities. That is why DEG is organising environmental and social management training for clients in this sector. A workshop was recently held in Colombia, preceded by a seminar for African banks in Ghana; the scheme was launched with a course in Thailand. The aim of these workshops is to establish the significance of risk in the environmental and social spheres and provide information on effective management systems, enabling banks to deploy these appropriately. In addition, subjects such as sustainable investment opportunities, communications and change management are on the agenda. The banks have welcomed this DEG service which is helping to set internationally recognised standards. To date, some 50 financial institutions from Africa, Asia and Latin America have taken part in seminars and one-to-one training sessions.

ANUGA 2009

More than 6,000 exhibitors will be showcased at ANUGA, the world's largest food and beverage trade fair, which is held every other year in Cologne. Once again, more than 160,000 trade visitors from over 170 countries are expected to attend in mid-October to keep abreast of developments and innovations.

DEG

- DEG has been financing and structuring the investments of private companies in developing and emerging-market countries for more than 47 years.
- DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy, from agribusiness and infrastructure to manufacturing and services. We also focus on the development of the financial sector in order to facilitate reliable access to capital locally.
- Our aim is to contribute to sustainable economic growth and permanently improve the living conditions of the local population.

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DEG training courses for the financial sector in Africa, Asia and Latin America.

Traditionally, DEG holds a reception during ANUGA, providing German and international enterprises with a forum for an exchange of views. This year, it is being held on 12 October.

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Second Atrium Dialogue

"Partners in Development: the role of development finance institutions during the current economic crisis": that is the subject of DEG's second "Atrium Dialogues", to be held on 16 September. Following the CSR symposium in 2008 this event focuses on the economic crisis, putting a great strain on the poorest countries in particular. Given its experience in crisis management, DEG relies, as a matter of principle, on maintaining a continuous exchange with enterprises and institutions in its partner countries. Accordingly, the conference is likely to see lively discussions about the crisis, its consequences and the role of international development finance institutions.

As well as the German Federal Minister for Economic Cooperation and Development, Heidmarie Wieczorek-Zeul, international entrepreneurs and experts from development cooperation and science are expected to attend, in part to bid farewell to Dr Winfried Polte. In post since July 2001, the Chairman of DEG's board of management is to retire on 30 September after 35 years with KfW Bankengruppe. His successor is Bruno Wenn, who joined KfW Bankengruppe in 1982 and has most recently served as Senior Vice President responsible for financial cooperation with Sub-Saharan Africa.

